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Cygnus

CORPORATION LIMITED

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A N N U A L

R E P O R T



1967 ANNUAL REPORT

DIRECTORS

ROBERT A. BROWN, JR.
President and Managing Director
Home Oil Company Limited

ROBERT W. CAMPBELL
Executive Vice-President and General Manager
Home Oil Company Limited

WILLIAM F. JAMES, Ph.D.
Partner – James, Buffam & Cooper

BENTON MACKID
Partner – Reed, Shaw & McNaught

HARRY I. PRICE
Chairman of the Board
Harry Price Insurance Ltd.

ARTHUR M. SHOULTS
President – James Lovick Limited

J. ROSS TOLMIE, Q.C.
Partner – Herridge, Tolmie, Gray, Coyne & Blair

OFFICERS

R. A. BROWN, JR. *President and
Chairman of the Board*
R. W. CAMPBELL *Executive Vice-President*
R. R. SMITH *Vice-President and General Manager*
R. B. COLEMAN *Secretary*
B. B. ROMBOUGH *Treasurer*
F. G. MITCHELL *Assistant Secretary*
G. W. BENNETT *Assistant Treasurer*

AUDITORS

Riddell, Stead, Graham & Hutchison

SOLICITORS

*Macleod, Dixon, Burns, Love, Leitch, Lomas,
Charters & Montgomery*

BANKERS

Canadian Imperial Bank of Commerce

REGISTRAR AND TRANSFER AGENT

Crown Trust Company

LISTINGS

PREFERRED SHARES

Montreal Stock Exchange – Toronto Stock Exchange

CLASS A AND CLASS B SHARES

*Montreal Stock Exchange – Toronto Stock Exchange
Calgary Stock Exchange – Vancouver Stock Exchange*

TO THE SHAREHOLDERS

The net income of Cygnus Corporation for 1967 amounted to \$354,083, a slight increase from the net income of \$342,116 earned in the previous year. These figures are after deducting losses of subsidiaries, which amounted to \$51,318 in 1967 and \$85,650 in 1966.

The principal asset of Cygnus Corporation is its investment in Home Oil Company Limited. Early in the year your Company sold its Home Oil Class A shares, totalling 27,565, and purchased an equal number of Home Oil Class B shares. As a result of this transaction Cygnus Corporation holds 979,265 Class B shares of Home Oil. These had a market value of \$26,684,971 at December 31, 1967.

Home Oil reported net earnings of \$1.06 per share compared with 99 cents in 1966. The 1967 figure includes a special credit from sale of securities, amounting to 5 cents per share. Home Oil's crude oil and natural gas liquids production increased by 6.6%, and natural gas sales by 7.5%. Income from sulphur sales increased 100%. Dividends totalling 50 cents per share were paid on Home's Class A and Class B shares.

Cygnus Corporation's wholly owned subsidiary, Thio-Pet Chemicals Ltd., completed a plant expansion late in the year that added 70% to its former capacity. Expansion of the plant reduced the capital investment per unit of productive capacity and this should assist the future profitability of the company. The loss incurred in 1967 was significantly lower than in 1966, and it is anticipated that 1968 will be profitable.

With the increasing world demand for sulphur it is expected that sour gas production in Alberta will continue to expand. Thio-Pet produces carbon disulphide for which one of the major uses is

as a solvent in sour gas production. Increased activity in this phase of the industry will be reflected in an increase in the demand for carbon disulphide. Thio-Pet's other major product is hydrogen sulphide which has an impressive growth potential in base metal processing and in the production of heavy water used for nuclear power generation.

There was improvement in all areas of the operations of Empire Management Limited, the wholly-owned subsidiary that manages Natural Resources Growth Fund Ltd. Certain organizational changes during the year resulted in extra expense however, and although sales commissions increased significantly they were still not large enough to result in a profit.

During the year several investment opportunities were examined, but only one was consummated. In February 1968 Cygnus Corporation became a substantial shareholder of Community Antenna Television Ltd. This company was organized for the purpose of providing cable television to the City of Calgary. It is hoped that the company will be in a position to commence the construction of the necessary facilities later this year.

On behalf of the Board of Directors,

A handwritten signature in dark ink, appearing to read "R. A. Brown, Jr.", with a stylized flourish at the end.

R. A. BROWN, JR.

Chairman and President

March 6, 1968

STATEMENT OF SOURCE AND USE OF FUNDS

FOR THE YEAR ENDED DECEMBER 31, 1967

	<u>1967</u>	<u>1966</u>
FUNDS WERE OBTAINED FROM		
Net earnings	\$354,083	\$342,116
Add		
Charges to earnings not requiring funds including subsidiary companies' loss	<u>91,253</u>	<u>124,490</u>
	<u>\$445,336</u>	<u>\$466,606</u>
FUNDS WERE USED FOR		
Investment in Home Oil Company Limited	\$ 82,762	\$ -
Advances to subsidiary companies	263,128	119,430
Redemption of 5½ % preferred shares (Note 4)	60,084	-
Dividends - 5½ % preferred shares	135,706	137,501
Dividends - Class A shares	<u>88,854</u>	<u>88,854</u>
	630,534	345,785
Increase (decrease) in working capital	<u>(185,198)</u>	<u>120,821</u>
	<u>\$445,336</u>	<u>\$466,606</u>

The accompanying notes are an integral part of this financial statement.

BALANCE SHEET

ASSETS

CURRENT ASSETS

	1967	1966
Cash	\$ 6,662	\$ 134,255
Dividends receivable	318,261	318,261
	<u>324,923</u>	<u>452,516</u>

INVESTMENT IN HOME OIL COMPANY LIMITED, at cost (Note 1)	14,240,049	14,157,287
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INVESTMENT IN AND ADVANCES TO WHOLLY-OWNED SUBSIDIARY COMPANIES (Note 2)	1,801,949	1,590,138
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OTHER ASSETS (Note 3)

Commission and expense on issuance of preferred shares	41,720	71,259
Incorporation and organization expense	15,595	25,992
	<u>57,315</u>	<u>97,251</u>

Approved on behalf of the Board:

R. A. Brown Director

Robert W. Campbell Director

	<u>\$16,424,236</u>	<u>\$16,297,192</u>
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AS AT DECEMBER 31, 1967

LIABILITIES

CURRENT LIABILITIES

	1967	1966
Bank indebtedness	\$ 50,000	\$ -
Accounts payable	22,765	14,334
Dividend payable	33,550	34,376
	<u>106,315</u>	<u>48,710</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 4)

Authorized

- 375,000 Preferred shares of the par value of \$20 each, issuable in series
- 4,000,000 Class A shares of no par value
- 4,000,000 Class B shares of no par value

Issued

121,975 5½ % Cumulative redeemable convertible preferred shares	2,439,500	2,500,000
888,789 Class A shares	3,332,852	3,332,852
2,606,374 Class B shares	9,743,565	9,743,565
	<u>15,515,917</u>	<u>15,576,417</u>

CAPITAL SURPLUS (Note 4)	60,500	-
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RETAINED EARNINGS	741,504	672,065
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<u>16,317,921</u>	<u>16,248,482</u>
<u>\$16,424,236</u>	<u>\$16,297,192</u>

STATEMENT OF EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1967

	1967	1966
REVENUE		
Dividends	\$489,633	\$489,633
Interest	21,335	19,165
	<u>510,968</u>	<u>508,798</u>
EXPENSE		
General and administrative expenses (Note 6)	65,632	42,192
Amortization of share issue and organization expense (Note 3)	39,935	38,840
	<u>105,567</u>	<u>81,032</u>
Net earnings before subsidiary companies' loss	405,401	427,766
Subsidiary companies' loss (Note 2)	51,318	85,650
NET EARNINGS	<u>\$354,083</u>	<u>\$342,116</u>

The accompanying notes are an integral part of this financial statement.

STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1967

	1967	1966
BALANCE at beginning of year	\$ 672,065	\$556,304
Net earnings	354,083	342,116
	<u>1,026,148</u>	<u>898,420</u>
Dividends declared		
Preferred shares	135,706	137,501
Class A shares	88,854	88,854
Appropriation of retained earnings on purchase for cancellation of 5½% preferred shares (Note 4)	60,084	—
	<u>284,644</u>	<u>226,355</u>
BALANCE at end of year	<u><u>\$ 741,504</u></u>	<u><u>\$672,065</u></u>

The accompanying notes are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 1967

NOTE 1 INVESTMENT IN HOME OIL COMPANY LIMITED

As at December 31, 1967 the company held 979,265 Class B shares of Home Oil Company Limited. Based upon closing market prices on the Toronto Stock Exchange at December 29, 1967 the value of the foregoing shares was \$26,684,971.

NOTE 2 INVESTMENT IN AND ADVANCES TO WHOLLY-OWNED SUBSIDIARIES

The financial statements include full provision for the aggregate losses of the company's wholly-owned subsidiaries, Thio-Pet Chemicals Ltd. and Empire Management Limited from dates of acquisition.

Consolidated financial statements were not prepared because of the dissimilarity of the operations of the companies.

Investments in and advances to wholly-owned subsidiaries consist of:

Shares, at cost	\$ 88,445
Advances	1,951,073
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	2,039,518
Loss from date of acquisition	(237,569)
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	<u>\$1,801,949</u>

NOTE 3 OTHER ASSETS

The commission and other expenses incurred on the sale of preferred shares together with incorporation and organization expenses are being amortized over a five year period ending July, 1969.

NOTE 4 CAPITAL STOCK

(a) Dividends – Class A and Class B Shares

The holders of Class A shares are entitled to cumulative dividends of 10 cents per share per annum payable on July 1. After payment of these dividends, the

company may pay dividends up to 10 cents per share per annum to the Class B shareholders. Dividends in excess of the foregoing, in any year, are payable equally on Class A and Class B shares.

(b) *5½% Cumulative Redeemable Convertible Preferred Shares*

The 5½% Cumulative Redeemable Convertible Preferred Shares are convertible on or before December 29, 1972 into Class A shares of the company on the basis of four Class A shares for each preferred share. The preferred shares are redeemable at \$21 per share.

During the year the company purchased for cancellation 3,025 preferred shares at a cost of \$60,084.

In accordance with Section 61 of the Canada Corporations Act, the surplus resulting from the purchase for cancellation of the preferred shares has been designated as capital surplus.

(c) *Share Options*

There are 150,000 Class B shares reserved for issuance to employees of the company and its subsidiary and affiliated companies under the terms of an Incentive Share Option Plan. Options have been granted to such persons to purchase 102,000 shares (of which 81,000 were granted to officers and directors of the company) at the price of \$7 per share exercisable, subject to the terms thereof, up to December 22, 1976.

NOTE 5 EXECUTIVE REMUNERATION

Directors' fees in the amount of \$8,400 have been charged against earnings for the year.

NOTE 6 SUBSEQUENT TRANSACTION

Subsequent to the year end the company purchased 40,000 shares of Community Antenna Television Ltd. for \$80,000.

The company may also be obligated to guarantee or otherwise provide up to a maximum of \$1,750,000 in respect of the estimated debt requirement of that company.

AUDITORS' REPORT

TO THE SHAREHOLDERS
CYGNUS CORPORATION LIMITED

We have examined the balance sheet of Cygnus Corporation Limited as at December 31, 1967 and the statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1967 and the results of its operations and the source and use of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

RIDDELL, STEAD, GRAHAM & HUTCHISON

Chartered Accountants

Calgary, Alberta
February 13, 1968.

